WORKING PAPER SERIES

FOREIGN INVESTMENT IN CANADA: MEASUREMENT AND DEFINITIONS

Working paper number 12
August 1992

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FOREIGN INVESTMENT IN CANADA: MEASUREMENT AND DEFINITIONS

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Working paper number 12
August 1992

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EXECUTIVE SUMMARY

For the general public, the statistics relating to foreign-controlled firms and the investments of non-residents resemble a jigsaw puzzle. Individual pieces appear recognizable, but the user has neither the time nor the patience to assemble everything into a comprehensive picture. This paper examines and summarizes the myriad of ways in which foreign direct investment (FDI) and related statistics are measured, as seen from the different perspectives of the federal government organizations producing the data.

There are five such data producers within the federal government: the Balance of Payments (BOP) division of Statistics Canada; the division of Statistics Canada that administers the *Corporations and Labour Unions Returns Act* (CALURA); Investment Canada (IC); the Mineral Policy Sector (MPS) of Energy, Mines and Resources Canada; and the Petroleum Monitoring and Information Services Division (PMIS) of the Department of Energy, Mines and Resources Canada.

Each organization collects data on aspects of FDI based on its mandate. Thus the objectives and conceptual framework behind each set of data are often considerably different, and accordingly there are significantly different measures. Even the most sophisticated analyst does not always fully appreciate the subtleties and nuances differentiating these measures and definitions. In general, the various data sources involve the following activities.

Foreign Direct Investment Flows

The BOP program is unique in that it provides the only measure of cross-border capital movements, both into and out of Canada. This is the generally accepted source of statistics on the amount of foreign investment flows entering or leaving Canada. The published figures are for Canada as a whole, with no regional, provincial, or smaller area breakdowns. They are made available quarterly, with a time lag of about two quarters.

The FDI flows show the movement of investment funds across the Canadian border. This includes outgoing as well as incoming investment. These figures indicate the value of cross-border direct investment and represent the official recorded entry and exit of FDI. Investments that do not involve the cross-border flow of funds are not counted. For example, reinvested earnings and money borrowed in Canada by foreign-owned firms are not included as direct investment flows.

The FDI flows are part of the balance of payments, which comprises the current and capital accounts. Transactions in goods and services are measured in the current

account; transactions in financial assets and liabilities, in the capital account. Foreign direct investment is one of the four major components of the long-term section of the capital account, the others being CDIA, foreign portfolio investment in Canada, and Canadian portfolio investment abroad.

Flow data are composed of gross inflows, gross outflows, and net figures. Gross inflows of FDI include the regular type of equity and debt investments that a company controlled outside Canada or that a citizen of a foreign country makes in a business in Canada, in which it has a say in the day-to-day operations. When a loan is repaid or when some or all of the equity owned by a non-resident is sold to a resident of Canada, a gross outflow of FDI occurs. A gross outflow also occurs when a subsidiary lends money to its foreign parent. This gross outflow should not be confused with Canadian direct investment abroad (another item in the capital account) or with outflows of interest and dividends (items contained in the current account).

Statistics Canada does not include changes in retained (or reinvested) earnings in a direct investment business as part of the net flow of FDI or CDIA because there is no cross-border flow. Some countries — the United States, for example — do, however, include increases in retained earnings as a component of the flows, because it allows for the easier reconciliation of their flows and stocks data. International comparisons of FDI flows are, therefore, not always appropriate.

Foreign Direct Investment Stocks

In addition to flow information, the BOP division calculates the stock of FDI in Canada and CDIA by source country (or destination for CDIA) on a broad industrial basis. Increments to the stock of FDI and CDIA are a combination of net capital inflows plus increases in retained (or reinvested) earnings and revaluations and reclassifications of businesses held or acquired.

The stock of FDI represents the net book value (usually at the end of the year) of long-term capital owned by a foreign direct investor in a business in Canada wherein it can influence, or have an effective voice in the management of, the Canadian business. For a foreign investment to be classified as "direct", the foreign interest generally holds at least 10 percent of the voting equity. The stock of FDI covers long-term capital provided by, or accruing to, foreign direct investors, comprising both long-term debt (such as bonds, debentures, loans, and advances) and equity (common and preferred shares, and retained earnings).

Retained earnings are apportioned to direct investors on the basis of the percentage of share capital owned by each direct investor. It is important to note that the market value of these assets is not considered in the value of FDI stocks because of the nature of their day-to-day fluctuations. The FDI stock figures increase or decrease

by the combined changes in net FDI flows, in retained earnings, and in the assessed book value of investments, and as a result of reclassifications from shifting Canadian/non-Canadian ownership. It should be noted that retained earnings by non-residents have traditionally accounted for the greater proportion of increases in the total stock of FDI in Canada. The FDI stock data are broken down by industry, but only at a very general level because of the consolidated nature of the data. The data are published annually. There are no breakdowns by location.

Frequency, Intended Value, and Location of Investment

It is the role of Investment Canada to foster investment in Canada by both Canadians and non-Canadians. This entails the promotion of investment opportunities, the research of investment-related issues, and the notification and review of investment intentions. It is from this latter activity that Investment Canada produces flow data on the value of foreign investments in a given period. Consequently, Investment Canada data are a reflection of operations under the *Investment Canada Act*.

Investment Canada officials tabulate the value of ***intended investment*** from new business notifications and the book value of assets acquired from acquisitions requiring notification or review. These figures cannot be compared with the FDI flow figures published by Statistics Canada. The funds used to establish or acquire a business in Canada by a foreign investor may be brought in from abroad or obtained from a variety of sources inside Canada. In some cases, very little capital may be brought into Canada by the foreign investor, and as a result, the actual inflow of FDI might be small compared with the value of the entire investment.

In addition, the data do not include the value of the myriad of plant expansions by established foreign investors in Canada. Keep in mind too that some of the proposed investments reported under the purview of the *Investment Canada Act* may be canceled or scaled down after the notification is certified or the reviewable investment is allowed. Investment Canada may review and approve several proposals to acquire the same assets. There may therefore be some multiple counting of the value of investment. Finally, Investment Canada figures include the value of the planned investment for the following 24 months only, when in fact, for some major investments, the length of time required to complete an investment may be more than two years. Hence, Investment Canada data do not portray a true measure of the actual annual increase (or gross inflow) in the value of foreign investment in Canada, and they cover only new business proposals and acquisitions by non-Canadians.

Investment Canada provides some locational and industrial dimension to the investment data collected under the purview of the *Investment Canada Act*. In fact, it is the only source of data pertaining to the direction of intended investment for regions and provinces (in rare instances, where confidentiality permits, even smaller area data are

available). The entire value of each investment, however, is assigned to the location of the largest concentration of employees involved in the investment. For example, if an enterprise with operations in three provinces is acquired and the book value is $20 million, the transaction and the entire $20 million is assigned for statistical purposes to the province in which the enterprise has the largest number of employees. Similarly, industrial statistics reflect the principal industry of the investments, even for corporations with diverse activities.

Investment Canada publishes a quarterly statistical analysis of operations under its Act for the preceding period, and that is the most up-to-date information on investment available. Investment Canada's Annual Report provides data for the entire year.

Foreign Control and Comparative Financial Performance

The Corporations and Labour Unions Returns Act

The CALURA provides comparative analysis of the financial characteristics and performance of foreign- and Canadian-controlled firms over a comprehensive and broad range of industries. This is the generally accepted source regarding the level of foreign control, both for the economy as a whole or by industry. There are selected financial data by industry for both foreign- and Canadian-controlled firms in Canada. The figures are published annually, with about a two- to three-year lag, and are for Canada. In some cases there is a provincial breakdown for selected data.

The CALURA data on the percentage of foreign-controlled assets are generally accepted as the official measure of foreign control of the Canadian economy. This is the result of its legislative mandate and the fact that this measure is the longest consistent time series on foreign control, dating back to 1965.

Data are provided on assets, equity, sales, profits, and taxable income. In addition, information is filed on the incorporation of each company and its board of directors (citizenship, residency, and position). As well, corporations provide detailed financial statements and a brief schedule on transfers of technology. Foreign-controlled firms, whose size is less than the reporting threshold, file an ownership schedule. As a result, all foreign-controlled firms are identified; and, as a residual, all remaining corporations are treated as Canadian-controlled.

The CALURA determines the ultimate controlling interest (individual, related group of individuals, or corporation) and assigns each corporation a country of control generally based on the residency of the controlling interest. This permits the development of statistics in terms of multinational enterprises, foreign-controlled firms, and leading enterprises (which are usually ranked by sales).

The CALURA reports contain financial data for corporations controlled by the same country, aggregated by industry, to determine: the number of corporations and enterprises, and the value of corporate assets, sales, equity, profits, and taxable income controlled by different countries; the level of Canadian versus foreign control within specific industries; performance ratios for foreign- and Canadian-controlled firms; leading enterprise statistics by control; provincial measures of foreign control based on taxable income; and selected distributions and special analysis topics (mergers and acquisitions activity, the energy sector, assets controlled by specific countries, and so on).

Petroleum Monitoring and Information Services

The PMIS provides information and analysis on the financial performance of the petroleum industry in Canada, producing data on the ownership and control of the petroleum industry, stated in terms of its Canadian content or share. The PMIS currently produces estimates on the foreign ownership of the petroleum sector revenues, using the same methodology as CALURA (the ultimate degree of non-resident ownership). Data are presented at two levels of industrial detail: upstream and petroleum-related (upstream and downstream), covering energy enterprises with more than $10 million in assets or revenues. Data on revenues segmented by use, as well as assets and exploration expenditures, are stated in terms of control and ownership. The revenue measure is emphasized because asset-based measures rely upon book value rather than current market value. In addition, in the petroleum industry book values are highly variable, depending upon the method of accounting (full-cost or successful-efforts method).

The country of control assigned by the PMIS is identical to that of Statistics Canada, despite a different conceptual framework. The PMIS' concept of ownership is based on participating equity. This statistic considers both the direct equity ownership by non-residents in a Canadian resident corporation and the indirect equity ownership resulting from any of its holding corporations that may have some level of non-resident ownership. The PMIS ownership statistics are stated in terms of the level of Canadian ownership. The PMIS reports are produced semi-annually within one year of the reference period. In addition to its analytical output, the PMIS produces a directory entitled *Ownership Structures of Principal Petroleum Companies in Canada*. Comparable to the Statistics Canada directory, *Intercorporate Ownership*, this report presents a diagrammatic representation of ownership relationships between corporations. These relationships include investors, parent or holding companies, subsidiaries, and minority investments. The report also shows the position, residence, citizenship, and voting ownership of each director and officer of the corporation, and the ownership level and country of control of the corporation.

Mineral Policy Sector of Energy, Mines and Resources Canada

The MPS produces estimates of the level of foreign control in the nonfuel minerals and coal sectors of the Canadian mining industry in an Annual Report entitled *Ownership Structure and Control of the Canadian Nonfuel Minerals and Coal Sectors*. The assignment of the country of control is identical to that of Statistics Canada. Unlike other departments and agencies, the financial data used by MPS is obtained mainly from public sources, including published annual reports, disclosure documents filed with the Securities and Exchange Commission in the United States, and the Financial Post. In a small number of cases revenue estimates are made from internal information at EMR. The resulting financial data are primarily consolidated in nature. As in the case of the PMIS, revenue is used as the financial yardstick in presenting data on the level of Canadian control.

Prior to 1989-90, companies were included in the report if they were incorporated in Canada, industrially classified to the mining industry, and if their annual revenue exceeded $10 million. Since its 1989-90 report, the MPS modified its criteria to measure industrial activity more accurately. These procedures included: the removal of oil and gas revenues and fertilizer revenues from gross mining revenues; the inclusion of mining revenues of subsidiaries or mining divisions where the parent company is not a mining firm; and the inclusion of mining revenues of incorporated limited partnerships. In addition to its analytical content, this report also includes ownership structures and the publicly disclosed financial data of the firms.

This latest report also contains an estimate for the year following the reference period, based upon significant changes in control (mergers and acquisitions) occurring within the industry.

INTRODUCTION

The different perceptions of foreign direct investment and their measurement often elicit confusion, even among knowledgeable persons. This is because there are a number of ways to describe FDI, each dependent on the purpose for which the data were collected. FDI can be measured by flows or stocks (a balance-of-payments concept) and is sometimes confused with the value of intended investment (an Investment Canada concept). There are significant conceptual differences between these measures, and the usefulness of each data set depends in large measure on their original purpose.

In addition, many associated terms — such as ownership, control, or majority-owned — are often used interchangeably, while their definition and use by Statistics Canada and by economists specializing in industrial organization are distinct and precise. These definitions underlie various statistics, such as the stock of FDI, and the degree of foreign control and foreign ownership.

Adding to this complexity is the fact that different departments or agencies of the Canadian federal government are producing data related to FDI. Statistics Canada, for example, in addition to producing the statistics under the Balance of Payments Program, administers the *Corporations and Labour Unions Returns Act*. Investment Canada produces data describing the size, location, and origin of acquisitions and new businesses by foreign interests. Energy, Mines and Resources Canada, through the Petroleum Monitoring and Information Services Division, produces ownership and control data as part of a broad statistical program designed to report on the economic health of the petroleum industry. In addition, the Mineral Policy Sector of EMR produces an annual data series on the control of the nonfuel minerals and coal sectors. These various data sources can lead to confusion among the general public.

The objectives of this paper are: to describe systematically the statistics related to foreign investment; to explain the objectives of each statistical program, highlighting similarities and distinctions between the programs; to list specific data items, their method of measurement, and any significant qualifiers; and finally to provide the conceptual framework and definitions explicitly used, or assumed, by each statistical program. The end result should provide readers with a comprehensive understanding of the measurement of foreign investment data and the practical limitations inherent in the data.

PART 1
Measurement of Foreign Investment in Canada

STATISTICS CANADA

Foreign Direct Investment

Direct investment refers to investment that is made to acquire a lasting interest in an enterprise in a country other than that of the investor. The investor's purpose is to have an effective voice in the management of the enterprise. The foreign entity, or group of associated entities. that makes this investment is termed the *direct investor.*[1]

Direct investment is normally identified by ownership of at least 10 percent of the equity. Direct investment covers the long-term capital provided by, or accruing to, direct investors, comprising both long-term debt (bonds, debentures, loans, advances, and so on) and equity (common and preferred shares, and retained earnings).

Flows

The FDI flows are used to show the movement of investment funds *across the Canadian border.* This includes outgoing as well as incoming investment. These figures, which are published by the Balance of Payments Division of Statistics Canada, indicate the value of cross-border direct investment and represent the official recorded entry and exit of FDI. Investments that do not involve the cross-border flow of funds are not counted. For example, if a foreign-controlled firm finances an expansion by borrowing in Canada, there is no cross-border flow. The FDI flow data are released quarterly, approximately two months after the end of March, June, September, and December.

The use of these figures requires an understanding of why they are collected and of their various components. The FDI flows are part of the balance of payments (see Chart 1). The balance of payments shows all of Canada's international transactions with non-residents in:

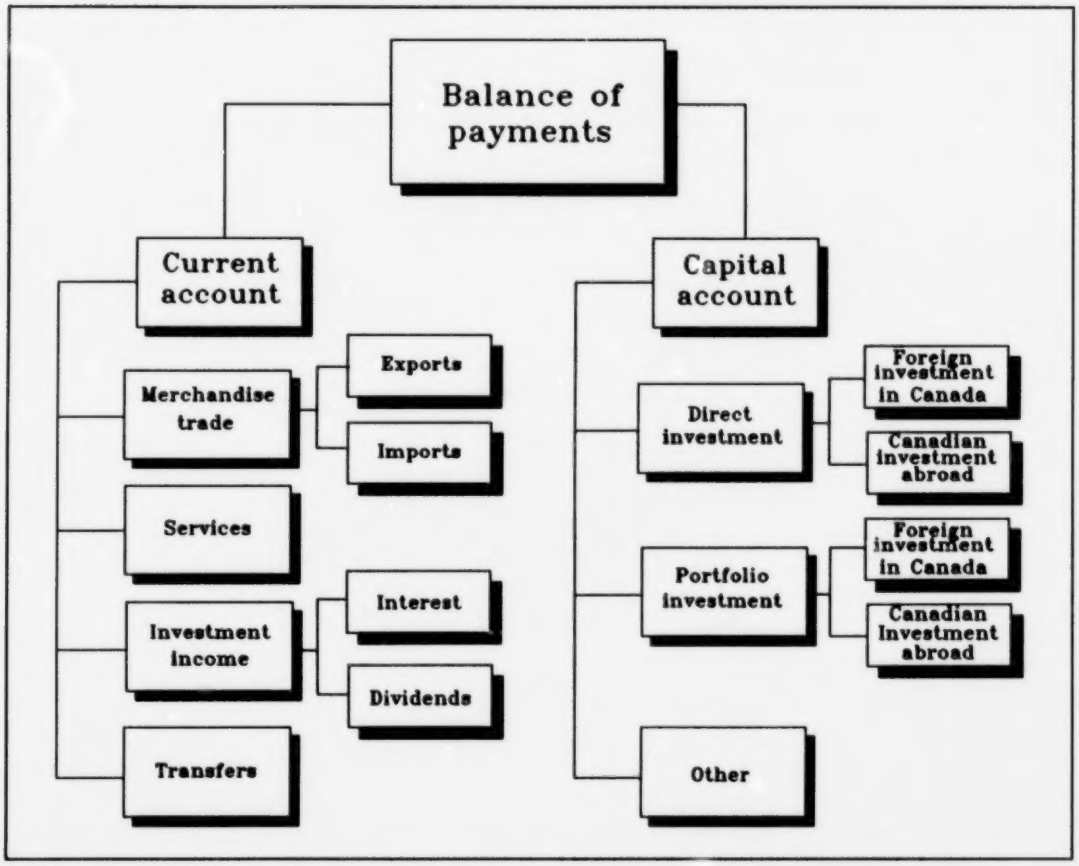
- goods, services, investment income, and transfers; and
- financial assets and liabilities.[2]

---

[1] International Monetary Fund, *Balance of Payments Manual*, 4th edition, 1977.

[2] The FDI flows focus on direct investment and deal primarily with the corporate sector. They do not include portfolio investment or transfers by governments.

Chart 1
Canada's Balance of Payments Accounts



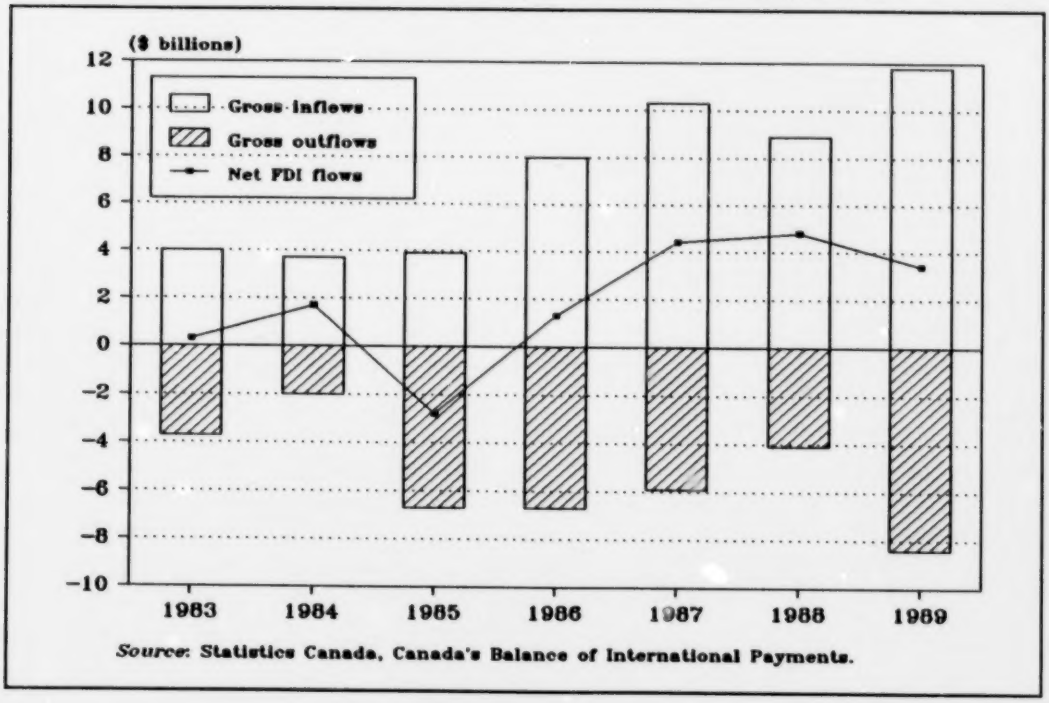
Transactions in goods and services are measured in the *current account*; transactions in financial assets and liabilities, in the *capital account*. FDI is a major component of the capital account, the others being Canadian direct investment abroad, foreign portfolio investment in Canada, and Canadian portfolio investment abroad.

Flow data in the balance of payments are usually net figures, accounting for the difference between gross inflows and gross outflows. Gross inflows of FDI include the regular type of equity and long-term debt investment that a company outside Canada, or a citizen of a foreign country, makes in a business in Canada, in which either has a say in its day-to-day operations. The investment must be made for the long term and includes any increases in investment (debt or equity) in a business in which there is already a significant degree of voting equity ownership. For example, if Company A, located outside Canada, loans money to Company B, a subsidiary inside Canada, that is a gross inflow of FDI.

When a loan is repaid or when some, or all, of the equity owned by a non-resident is sold to a resident of Canada, a gross outflow of FDI occurs. A gross outflow also occurs when a subsidiary lends money to its foreign parent. This gross outflow should not be confused with Canadian direct investment abroad (another item in the capital account) or with outflows of interest and dividends (items contained in the current account).

The net flow of FDI is the difference between the gross inflow and the gross outflow. Because the net flow may mask significant inflows and outflows of FDI, as seen in Chart 2, the gross inflow is used as the relevant statistic in determining trends in FDI.

Chart 2
Gross and Net Flows of Foreign Direct Investment, 1983-89



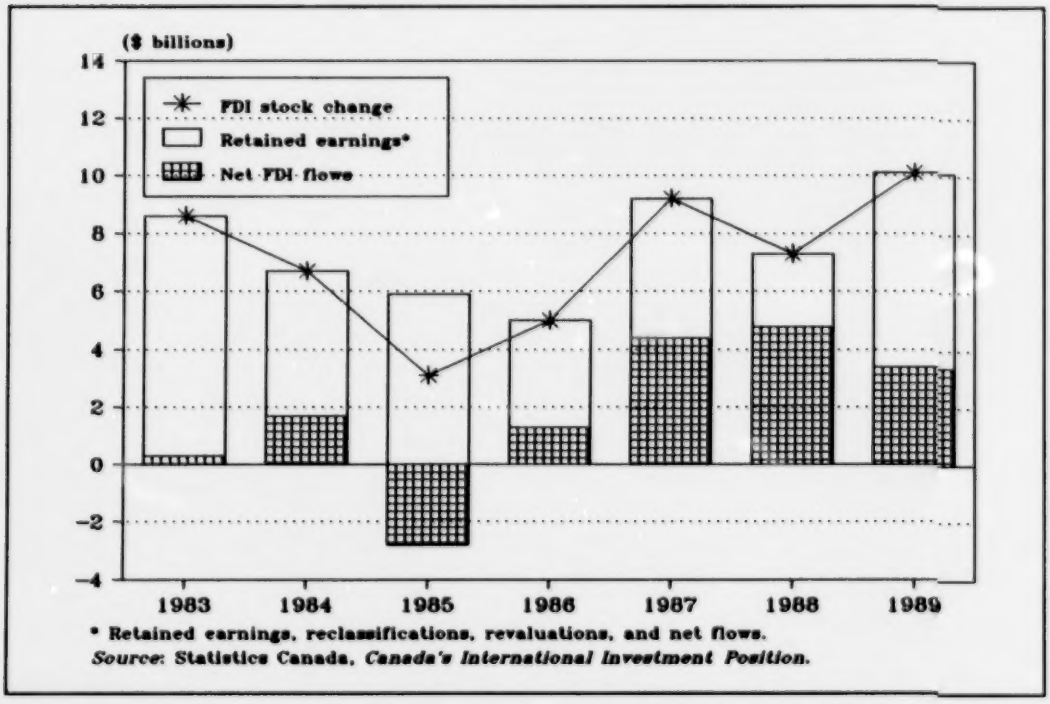
Statistics Canada does not include retained (or reinvested) earnings in a foreign-owned business in Canada as part of the net flow of FDI because there is no cross-border flow. Some countries — the United States, for example — do include changes in retained earnings as a component of the flows. International comparisons of FDI flows are therefore not straightforward. It should be noted that increases in the stock of FDI in Canada are largely accounted for by retained earnings and not by cross-border flows.

Stocks

The stock of FDI represents the net book value (as shown on the books of the Canadian resident firm — usually at the end of the year) of long-term capital owned by foreign investors in those businesses in Canada in which the foreign investors have an effective voice in the management of the Canadian business. (For practical purposes, a foreign investment is classified as "direct" if the foreign interest holds at least 10 percent of the voting equity.) The stock of FDI covers long-term capital provided by, or accruing to, foreign direct investors, comprising both long-term debt (such as bonds, debentures, loans, and advances) and equity (common and preferred shares, and retained earnings).

Statistics Canada obtains this information from detailed surveys sent to all companies in Canada that have some level of foreign investment. The collected data are a consolidation of the reporting corporation and its subsidiaries. Retained earnings are apportioned to foreign investors on the basis of the percentage of participating share capital owned.

Chart 3
Retained Earnings and the Change in Foreign Direct Investment, 1983-89

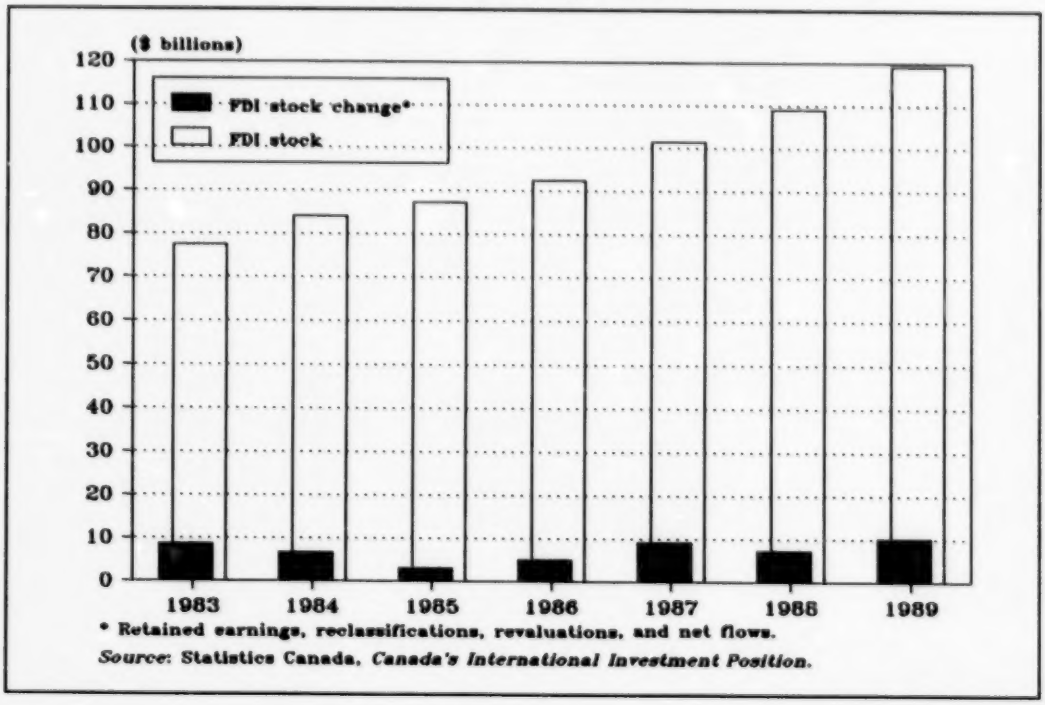


* Retained earnings, reclassifications, revaluations, and net flows.
Source: Statistics Canada, *Canada's International Investment Position*.

It is important to note that book value rather than market value is used to determine the stock of FDI in Canada; market values are subject to day-to-day fluctuations. This means that for a country like Canada, which has a long history of foreign investment, the stock of FDI may be understated. As book values are augmented by retained earnings, however, the book value approaches the market value. Also, there can be a significant difference between the market value and book value of assets as a consequence of depreciation, which again would produce an understatement in the stock value of FDI.

The FDI stock figures increase or decrease by the combined changes in net FDI flows, in retained earnings, and in the assessed book value of investments, and because of reclassifications resulting from shifting Canadian/non-Canadian ownership. As mentioned already, retained, or reinvested, earnings by non-residents normally account for most of the increase in the stock of FDI in Canada (see Chart 3). *Changes* in the stock of FDI are small in magnitude compared with the stock of FDI (see Chart 4).

Chart 4
Change in Foreign Direct Investment Stock
Relative to Total, 1983-89



* Retained earnings, reclassifications, revaluations, and net flows.

Source: Statistics Canada, *Canada's International Investment Position.*

The FDI stock figures are compiled and published by the Balance of Payments Division of Statistics Canada, as part of its quarterly publication entitled *Canada's International Investment Position* (Statistics Canada, Cat. No. 67-202). The FDI stock data are broken down by industry, but only at a very general level because of the consolidated nature of the data. In addition, because of the unique industrial coding conventions, the data are not comparable to any other data series. Some parts of this series are available within a year, with detailed information being available within 1½ years. Figures for 1990 have recently been released.

Ownership and Control of Long-Term Capital

The data on long-term capital employed are presented on the basis of both ownership and control for non-financial industries. The differences between ownership and control are shown in Chart 5. The dollar value of foreign ownership is the long-term capital employed in Canadian-based firms, whether foreign- or Canadian-controlled, that foreign interests own in both foreign- and Canadian-controlled firms. The value of foreign control is the long-term capital employed of only those corporations that are controlled by foreign interests. This includes even that portion owned by Canadian resident non-controlling interests. The term *foreign ownership ratio* refers to the total ownership of debt and equity by residents of a foreign country divided by the total capital employed in Canada (see Part 2 of this paper for more details on ownership, control, and related terms).

In recent years more up-to-date estimates of the percentage of foreign-controlled long-term capital employed have been produced as a forecast. These estimates involved the retabulation of older survey data (e.g., 1986), adjusted to reflect the changes in control resulting from foreign and Canadian acquisition activity. These projections do **not**, however, reflect:

- the increase in capital employed as a result of the formation of new corporations;
- the increases in capital employed as a result of reinvested earnings;
- the increases in capital employed as a result of new corporate borrowing; and
- the differential growth between existing Canadian- and foreign-controlled firms.

Chart 5
Comparison of Foreign Ownership and Control, 1987

	Long-Term capital employed		
	Owned by controlling interest	Owned by non-controlling interest	
		Foreign	Canadian
Foreign-controlled corporations	A	B	C
Canadian-controlled corporations		D	

Note: A+B+D = Value of foreign ownership
A+B+C = Value of foreign control
Source: Statistics Canada, *The Corporations and Labour Unions Returns Act*, 1987

The *Corporations and Labour Unions Returns Act*

The CALURA was passed by Parliament in 1962 and is administered by the Industrial Organization and Finance Division of Statistics Canada. The Act, as amended in 1981, applies to every corporation in Canada whose gross revenues during a year exceed $15 million or whose assets exceed $10 million at the end of the reporting period. In calculating the value of assets, corporations must include those of all commonly controlled corporations. This leads to the extension of reporting liability to complete enterprises. Corporations must file information on the ownership of their share capital, including the residence of their holders/owners (to determine the country of control of the corporation). In addition, information is filed on the incorporation of the company and its board of directors (citizenship, residency, and position). As well, corporations provide detailed financial statements and a brief description about transfers of technology.

Foreign-controlled firms, whose size is less than the reporting threshold, file an ownership schedule. As a result, all foreign-controlled firms are identified, and as a residual, all remaining corporations are treated as Canadian-controlled.

Through its ownership survey and corporate ownership research, CALURA determines the ultimate controlling interest (individual, related group of individuals, or corporation) and assigns each corporation a country of control generally based on the residency of the controlling interest (see Part 2 of this paper for a more complete description of the rules used in assigning country of control). This permits the development of statistics in terms of multinational enterprises, foreign-controlled firms, and leading enterprises (which are usually ranked by sales). These classifications are used by other Statistics Canada divisions in the study of industrial or economic activity by control and/or relative size.

Chart 6
Percentage of Foreign-Controlled Assets, Deposit-Accepting Institutions, 1983-87

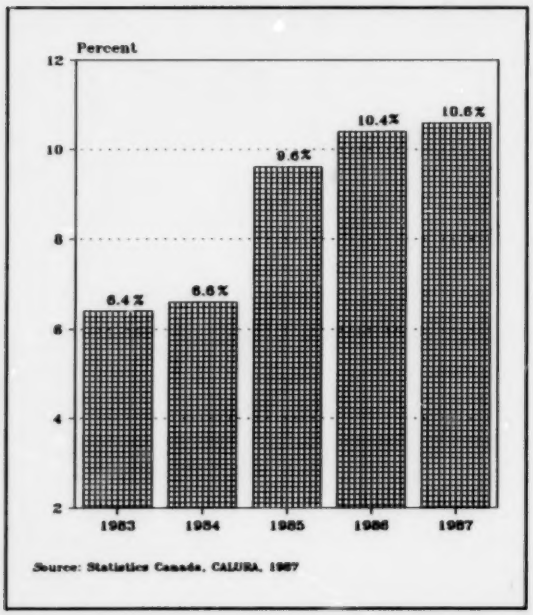
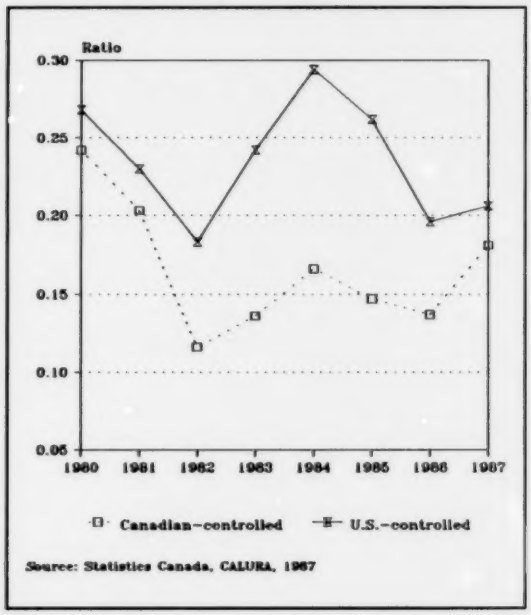


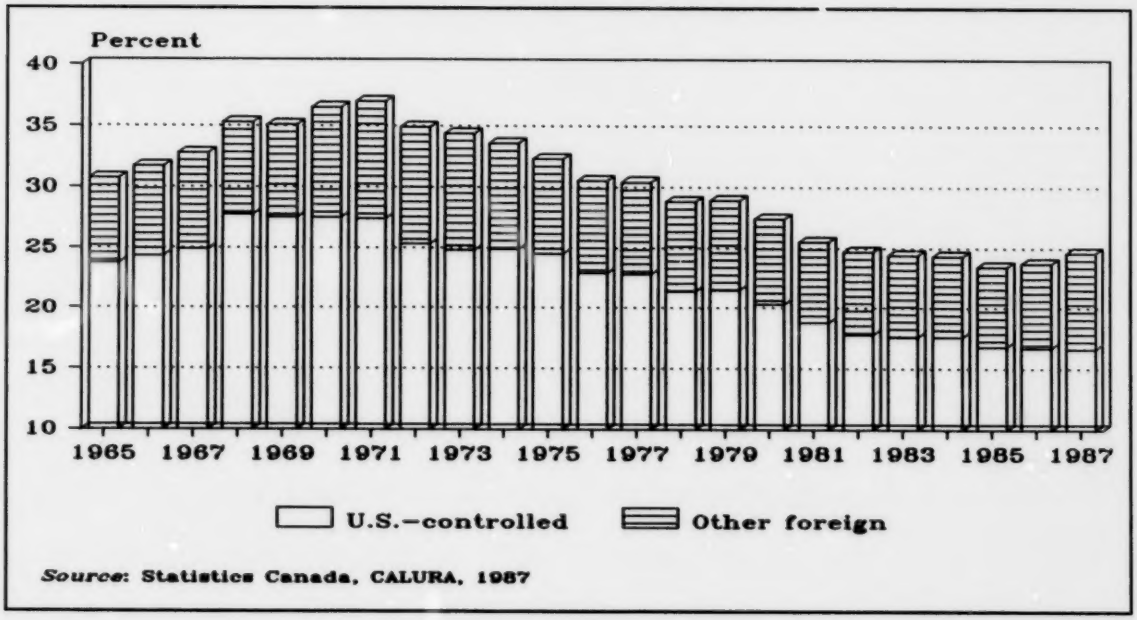
Chart 7
Ratio of Profits to Equity, by Country of Control, Non-Financial Industries, 1980-87



The CALURA Annual Reports (Statistics Canada, Cat. No. 61-210) are a statutory obligation and are tabled in the House of Commons. In these reports, financial data for corporations controlled by the same country are aggregated by industry to determine:

- the number of corporations and enterprises, and the value of corporate assets, sales, equity, profits, and taxable income controlled by different countries (see Charts 6, 8, 9, and 10);
- the level of Canadian versus foreign control within specific industries (see Chart 6);
- performance ratios for foreign- and Canadian-controlled firms (see Chart 7);
- leading enterprises by country of control;
- provincial measures of foreign control (see Chart 9); and
- selected distributions and special analysis topics (mergers and acquisitions activity, energy sector, assets controlled by a specific country, and so on — see Chart 10).

Chart 8
Percentage of Foreign-Controlled Assets, Non-Financial Industries, 1965-87



Source: Statistics Canada, CALURA, 1987

Chart 9
Share of Foreign-Controlled Taxable Income, Selected Provinces, 1983-87

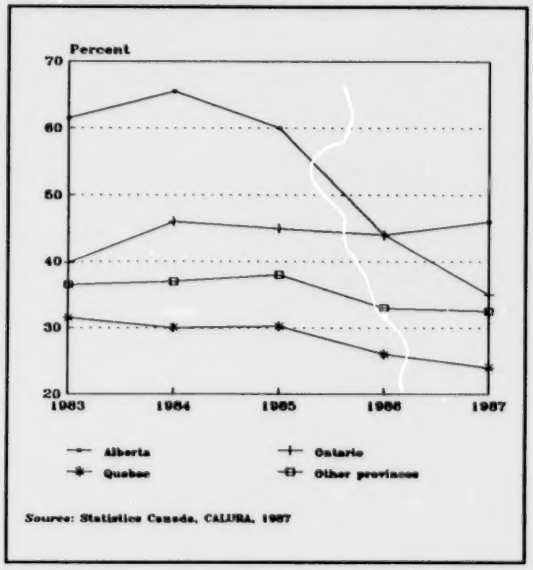
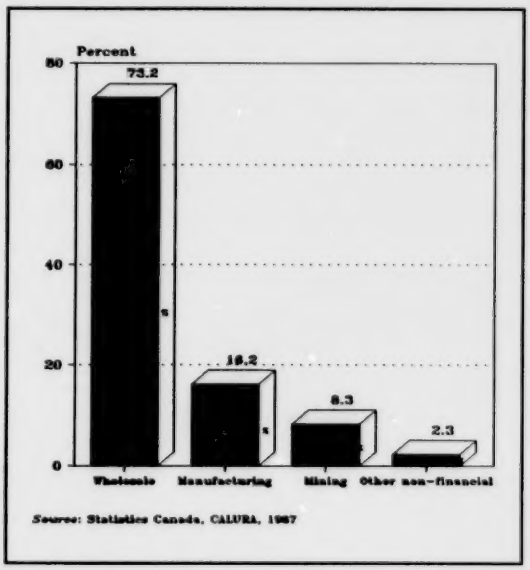


Chart 10
Industrial Distribution of Japanese-Controlled Assets, Non-financial Industries, 1987



The financial data used in CALURA reports are primarily derived from returns filed by corporations under the *Income Tax Act*. These returns are individual corporate financial statements (unconsolidated). The CALURA data are available for 182 non-financial industries and for a grouping of 6 financial industries, based on the 1960 Standard Industrial Classification. The data are available annually, but generally not until at least three years after the data year; 1988 is the most current year available.

The CALURA data on the percentage of foreign-controlled assets are generally accepted as *the* official measure of foreign control of the Canadian economy. This is the result of its legislative mandate and its long consistent time series on foreign control, dating back to 1965. The CALURA measure, however, does not reflect true market values; furthermore, it is subject to double counting as the data are not consolidated net of intercompany accounts and transactions.

During the 1970s, CALURA developed estimates of foreign control based on the ultimate degree of non-resident equity ownership (see Part 2 of this paper for an explanation of UNRO). The Petroleum Monitoring and Information Services Division of the Department of Energy, Mines and Resources Canada currently produces estimates on the foreign ownership of the petroleum-sector revenues using this statistic (for further details, see the PMIS section later on in Part 1.)

Intercorporate Ownership (ICO)

From non-confidential ownership forms filed under CALURA and extensive ownership research, Statistics Canada produces a directory of who owns and/or controls corporations in Canada. This work is entitled *Intercorporate Ownership* and is released approximately every two years. It covers more than 60,000 corporations, providing detailed information on each corporation's residence, control, and industrial classification, and on the ownership of its voting equity.

As the ownership data underlying this report are extensively supplemented by research on international ownership and incorporates rules for effective control (see Part 2 of this paper), this directory provides a detailed insight into the international and industrial organization of multinational enterprises operating in Canada.

Note in the following example that the structural information is presented in tiered fashion rather than in traditional organizational block diagrams. The latter method of presentation is used by the Petroleum Monitoring and Information Services Division and the Mineral Policy Sector (both at Energy, Mines and Resources Canada).

Chart 11
Example of Intercorporate Ownership

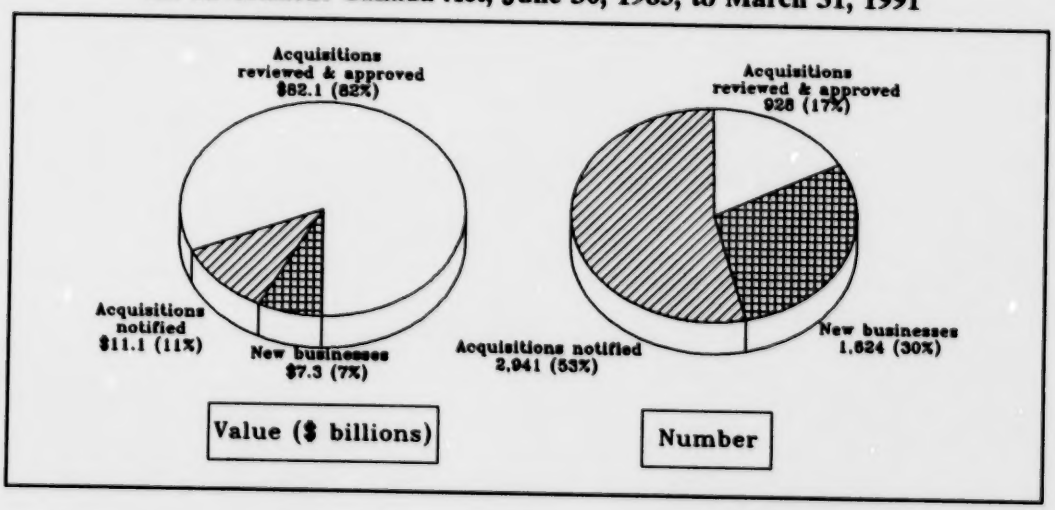
CTL	SIC	RES	%		(LEV)	CORPORATION NAME
SCOTT PAPER COMPANY						
USA	-	USA			(01)	**SCOTT PAPER COMPANY.L.C.**
USA	756	NS	100.0		(02)	Owikeno Finance Ltd.
USA	-	USA	100.0		(02)	Scott Worldwide Inc.
USA	756	BC	100.0		(03)	Owikeno Lake Timber Co. Ltd.
USA	271	NS	66.9		(04)	Scott Maritimes Ltd.
USA	727	BC	100.0		(05)	Scott Maritimes Finance Ltd.
USA	271	NS	33.1	(R)	(03)	Scott Maritimes Ltd.
USA	271	BC	50.1		(03)	Scott Paper Limited
USA	987	BC	100.0		(04)	Omega Products Ltd.
USA	019	BC	100.0		(04)	West Tree Farms Ltd.
USA	271	BC	100.0		(04)	Westminster Paper Co. Ltd.
USA	-	USA	100.0		(02)	Scott Worldwide Inc. Canadian Timberlands
USA	378	NS	33.3	(D)	(03)	Canso Chemicals Ltd.
USA	793	NS	100.0		(03)	Cape Chignecto Lands Ltd.
USA	031	NS	100.0		(03)	Scott Worldwide Inc. (Cdn.br.)

Note: For a description of codes, see Statistics Canada, *Inter-Corporate Ownership*, Cat. No. 61-517.
Source: Statistics Canada, *Intercorporate Ownership*.

INVESTMENT CANADA

Investment Canada's purpose is to foster investment in Canada by Canadians and non-Canadians. This entails the promotion of investment opportunities, the research of investment-related issues and the notification and review of investment intentions. Investment Canada produces FDI flow data on the value of foreign investments in a given period that are a reflection of operations under the *Investment Canada Act*. The information that Investment Canada gathers from the receipt of investment notifications and the review of investment activity by non-residents is a part of the review function. Investment Canada officials tabulate the value of ***intended investment*** from new business notifications and the book value of assets acquired from acquisitions requiring notification or review. Aggregated figures are published on a quarterly basis, three or four weeks after the end of March, June, September, and December. ***These figures cannot be compared with the FDI flow figures published by Statistics Canada.*** Investment Canada statistics describe intended investment transactions by non-residents.

Chart 12
Value and Number of Investments Subject to the Investment Canada Act, June 30, 1985, to March 31, 1991


Acquisitions reviewed & approved $82.1 (82%)
Acquisitions notified $11.1 (11%)
New businesses $7.3 (7%)
Value ($ billions)
Acquisitions reviewed & approved 928 (17%)
Acquisitions notified 2,941 (53%)
New businesses 1,624 (30%)
Number

Quarterly data published by Investment Canada show the number and value of investments for the current quarter, for the same quarter in the preceding year, and for the preceding 12-month period, as well as the cumulative values since the inception of the *Investment Canada Act*. Investments are divided between acquisitions and new businesses. Acquisitions are divided into two categories: direct (acquisition of control of

a Canadian resident firm or its Canadian resident parent company); and indirect (acquisition of control of a Canadian business through the acquisition of its parent outside Canada). In addition, acquisitions are shown in terms of those that were reviewed and approved, and those that involved only a notification (see Chart 12 and Table 1).

Table 1
Value of Assets Acquired, Planned Investments ($ Millions), by Quarter, and Cumulative Total under the Investment Canada Act

Investment	Q_1 1990	Q_1 1991	85/06/30 - 91/03/31
Acquisitions	2,110	1,762	93,199
Direct	1,538	1,204	68,840
Indirect	572	558	24,360
Approved Applications	1,397	859	82,123
Direct	921	532	58,958
Incidental*	206	255	5,042
Indirect	270	72	18,124
Notifications	713	903	11,076
Direct	411	417	4,840
Indirect	302	486	6,236
New businesses	284	49	7,318
TOTAL	2,394	1,810	100,517

*Direct, but part of an international acquisition.
Note: Total = acquisitions + new businesses; acquisitions = approved applications + notifications; and Q_1 = first quarter.
Source: Investment Canada.

All investment transactions are assigned a principal province of destination, a principal industrial sector, and a source (country of origin); see Charts 13 and 14. Note, however, that the principal province of destination is based on employment and that acquired corporations with multiprovincial operations are assigned to a principal province. Similarly, industrial statistics reflect the principal industry of the acquired operations, even for corporations with diverse activities. Furthermore, a transaction involving several corporations is still assigned a principal industry. Though the coding of

industries is based on the 1980 Standard Industrial Classification, confidentiality considerations limit the detail of published information.

Chart 13
Number of Investments Subject to the Investment Canada Act, by Source and Industry, June 30, 1985, to March 31, 1991

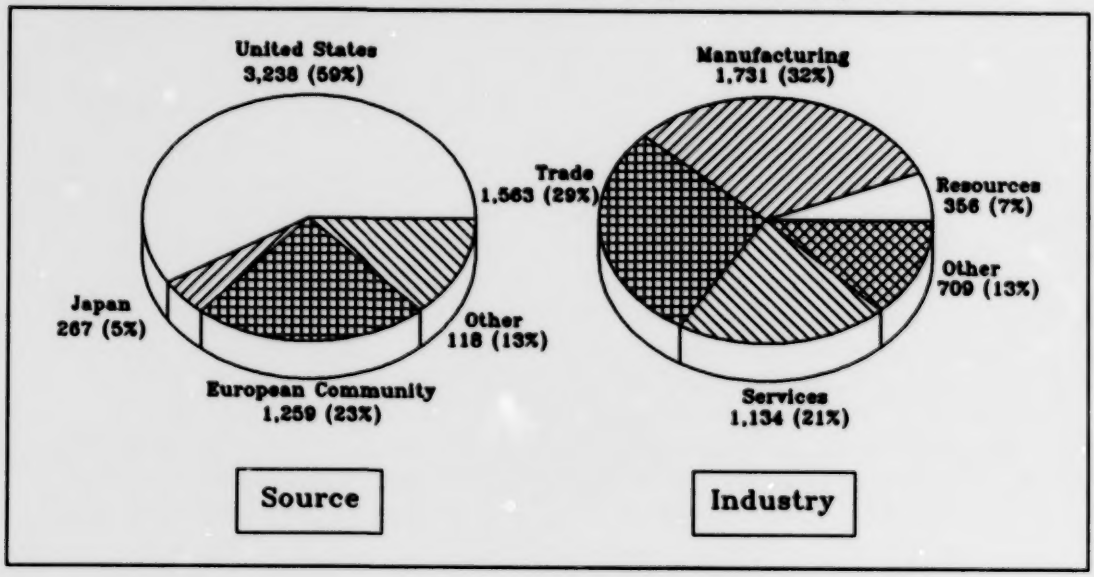
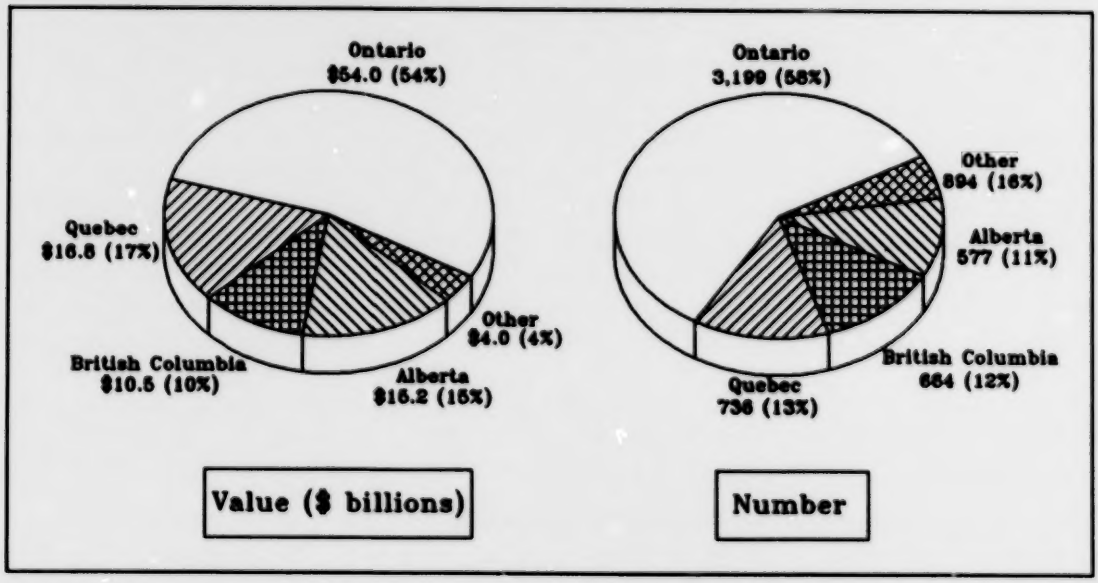


Chart 14
Destination of Investments Subject to the Investment Canada Act, June 30, 1985, to March 31, 1991



Investment Canada does not generally record the source of funds used to establish or acquire a business. It may be brought in from abroad or obtained from a variety of sources within Canada (i.e. Canadian-source financing, retained earnings, or a loan from an affiliated company, and so on). In some cases, very little capital may be brought into Canada by the foreign investor; as a result, there is a corresponding marginal inflow of FDI. In addition, Investment Canada collects data on only a small portion of the annual increase in the value of foreign investment in Canada and covers only new business proposals and acquisitions by non-Canadians.

Investment Canada data do not include the myriad of plant expansions by established foreign investors in Canada. Keep in mind too that some of the proposed investments reported under the purview of the *Investment Canada Act* may be cancelled or scaled down after the notification is certified or the reviewable investment is allowed. Investment Canada may review and approve several proposals to acquire the same assets. There is, therefore, some multiple counting of the value of investment. Finally, Investment Canada figures only include the value of the planned investment in new businesses for the following 24 months, when in fact, for some major investments, the length of time required to complete an investment may be more than two years.

Therefore, while Investment Canada statistics cannot serve as official statistics recording the flow of foreign direct investment entering Canada, they do provide a measure of the frequency of foreign acquisitions of Canadian firms, subject to the limitations of reporting liability.

The operations of Investment Canada necessitate the determination of the control status of any interest seeking to acquire a Canadian corporation. While the general determination of control is comparable to that of Statistics Canada, there are a number of departures resulting from differences in definitional frameworks. As a result of Investment Canada's use of *deemed Canadian*,[3] corporations such as Imasco are considered Canadian-controlled, while Statistics Canada classifies them as foreign-controlled. In addition, as a result of Statistics Canada's use of a *related group*[4] concept, Husky Oil is classified as foreign-controlled, while Investment Canada classifies it as Canadian-controlled. Other differences of a minor nature result from Investment Canada's use of citizenship, as well as residency, in determining the control of a block of equity owned by an individual, while Statistics Canada considers only residency.

[3] See definition of "deemed Canadian-controlled" in Part 2 of this paper.

[4] See definition of "related group" in Part 2 of this paper.

ENERGY, MINES AND RESOURCES CANADA

Petroleum Monitoring and Information Services Division

The mandate of the Petroleum Monitoring and Information Services Division is to provide the federal government and Canadian public with objective information and analysis on the financial performance of the petroleum industry in Canada. As part of this broad mandate, the PMIS produces data on the ownership and control of the petroleum industry, stated in terms of its Canadian content or share. Data are presented at two levels of industrial detail: *upstream*[5] and petroleum-related (upstream and *downstream*[6]); see Charts 15 and 16.

The PMIS survey, as prescribed by legislation, covers energy enterprises with more than $10 million in assets or revenues. Approximately 141 enterprises (1990 report) are liable, and they account for about 90 percent of total petroleum-industry revenues.

In choosing economic variables to state in terms of control and ownership, the PMIS uses revenues, segmented by use, as well as assets and exploration expenditures (see Table 2). The revenue measure is emphasized in their reports because asset-based measures rely upon *book* value rather than current market value. In addition, in the petroleum industry book values are highly variable, depending upon the method of accounting (full-cost or successful-efforts method). The annual revenue data used by the PMIS are based upon its own financial survey, supplemented by quarterly consolidations from Statistics Canada. The PMIS data are segmented petroleum-related revenues; upstream revenues; and revenues from natural gas, crude oil, and downstrean sources.

The country of control assigned by the PMIS is identical to that of Statistics Canada, despite a different conceptual framework (see PMIS definitions in Part 2 of this paper). The PMIS' concept of ownership is based on participating equity and is calculated in terms of the ultimate degree. This statistic considers both the direct equity ownership by non-residents in a Canadian resident corporation and the indirect equity ownership resulting from any of its holding corporations that may have some level of non-resident ownership. While Statistics Canada previously used voting equity, instead of participating equity, to derive the ultimate degree of non-resident ownership, the method of calculation in the two agencies is identical, (see Statistics Canada definition of ultimate

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[5] "Upstream" refers to activities and operations related to the search for, and the development, production, extraction, and recovery of, crude oil, natural gas, and natural gas liquids, and sulphur, as well as the production of synthetic oil.

[6] "Downstream" includes refining and marketing, transportation, and petrochemical operations.

non-resident ownership in Part 2). Note that PMIS ownership statistics are stated in terms of the level of Canadian ownership.

The PMIS control data are compiled in the same manner as those of Statistics Canada. The Canadian-control level for the industry is stated in terms of the percentage of industry revenues accounted for by those firms that are classified as Canadian-controlled. The Canadian ownership data for the industry is a weighted average in which the Canadian ownership value of the corporation is weighted by the corporation's revenues.

The PMIS reports are produced semiannually, and its year-end report is released the following year within seven months.

Chart 15
Canadian Control and Ownership of Upstream Petroleum-Industry Revenues, 1981-90

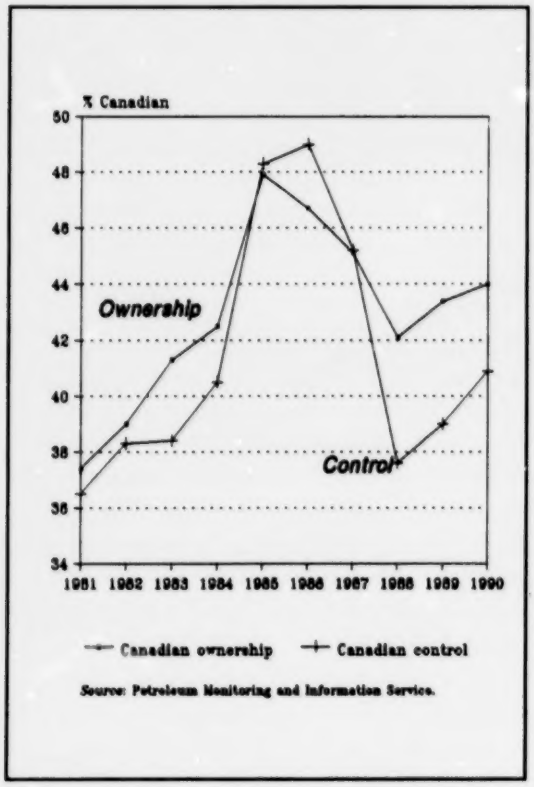


Chart 16
Canadian Control and Ownership of Petroleum-Industry Revenues, 1981-90

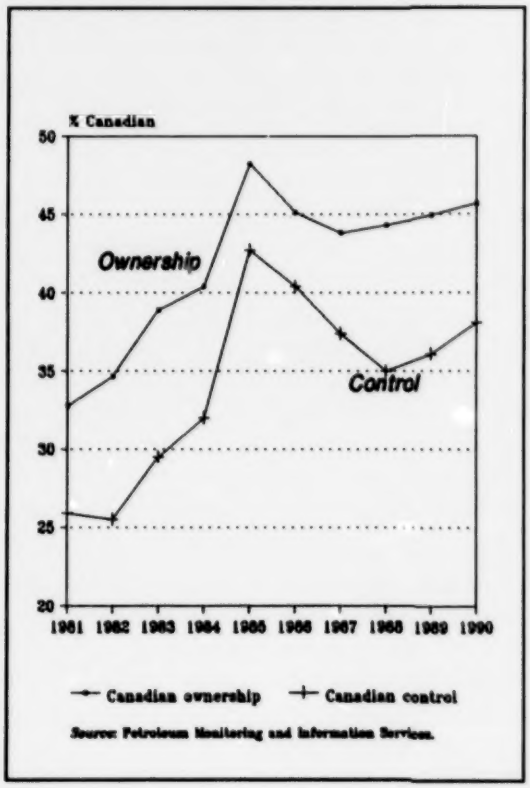


Table 2
Ownership and Control in the
Canadian Petroleum Industry, 1989 and 1990

	Ownership		Control	
	1989	1990	1989	1990
Petroleum-related revenues (see note)				
Integrateds and refiners	43.9	44.6	30.6	32.6
Oil and gas producers	47.7	48.6	51.5	53.2
Total industry	**44.9**	**45.7**	**36.1**	**38.1**
Upstream revenues				
Integrateds and refiners	39.9	39.0	19.4	20.5
Oil and gas producers	45.2	46.4	48.8	51.0
Total industry	**43.4**	**44.0**	**39.0**	**40.9**
Other measurement bases:				
Revenues				
Natural gas	46.2	44.0	44.2	42.5
Crude oil	43.3	43.5	37.0	39.1
Downstream	45.8	46.7	34.4	36.4
Exploration expenditures	**49.4**	**52.1**	**46.8**	**53.3**
Total assets in Canada	**48.7**	**49.2**	**42.7**	**44.5**

Note: Many petroleum companies have operations in non-petroleum-related fields that are not included here. Upstream plus downstream revenues have been taken as a substitute for a more specifically defined figure, reflecting every aspect of the Canadian petroleum industry.
Source: Petroleum Monitoring Agency, *Canadian Petroleum Industry 1990 Monitoring Report*, page 60, Table A22.

In addition to its analytical output, the PMIS produces a directory entitled *Ownership Structures of Principal Petroleum Companies in Canada*. Comparable to the Statistics Canada directory, *Intercorporate Ownership*, this report presents a diagrammatic representation of ownership relationships between corporations. These relationships include investors, parent or holding companies, subsidiaries, and minority investments. The report also shows the position, residence, citizenship, and voting ownership of each director and officer of the corporation. It also includes the ownership level and country of control of the corporation.

Mineral Policy Sector

The report entitled *Ownership Structure and Control of the Canadian Nonfuel Minerals and Coal Sectors* is an Annual Report produced by the Mineral Policy Sector of EMR. Its objective is to produce estimates of the level of foreign control in the nonfuel minerals and coal sectors of the Canadian mining industry. While the rules used by MPS in assigning a country of control differ from those used by other agencies, the results for those firms surveyed for this Annual Report are identical to those of Statistics Canada and Investment Canada.

Unlike other departments and agencies, the financial data used by MPS is obtained mainly from public sources, including published annual reports, disclosure documents filed with the Securities and Exchange Commission in the United States, and the Financial Post. In a small number of cases, revenue estimates are made from internal information at EMR.

As in the case of the PMIS, revenue is used as the financial yardstick in presenting data on the level of Canadian control. Based on the reference period for the revenue data, reports are produced approximately 20 months after the reference period ends.

For reports prior to 1989-90, companies were included if they were incorporated in Canada and industrially classified to the mining industry, and if their annual revenue exceeded $10 million. These criteria resulted in approximately 50 non-fuel mineral companies and 10 coal companies. The corresponding estimates of corporations based on CALURA data for 1987 were 1,156 and 38, respectively. The firms included in this report by the MPS, however, account for 91 percent of the revenues of the mineral-industry and 83 percent of the coal-industry revenue. Such a comparison is open to interpretation, however, as: (a) the revenue for a parent company is strictly from activities undertaken directly by the parent company and does not include revenues reported by any subsidiary that may report separately; and (b) where the parent company is not classified as a mining company but the majority of its subsidiaries are, and where the only revenue figure available is that of the parent company, then that revenue figure is used.

In their 1989-90 report, the MPS modified its criteria to measure industrial activity more accurately. These procedures included:

- the removal of oil and gas revenues and fertilizer revenues from gross mining revenues;
- the inclusion of mining revenues of subsidiaries or mining divisions where the parent company is not a mining firm; and
- the inclusion of mining revenues of incorporated limited partnerships.

In addition, it contains an estimate for the year following the reference period. These estimates are based upon the significant changes in control (mergers and acquisitions) occurring within the industry.

In addition to its analytical content, this report also includes ownership structures and the publicly disclosed financial data of the firms.

PART 2
General Definitions and Concepts

STATISTICS CANADA

Legal Entity

A legal entity is an entity that is granted the power to own assets, borrow resources, and transact business (buy and sell goods and/or services).

Person

A *person* is a legal entity. A person may be a corporation, an individual, a related group of individuals, a trust, an estate, a government, or another public body.

Corporation

A *corporation* is an entity that is incorporated under a law of Canada, a province of Canada, another country, or a foreign jurisdiction.

Foreign Branch

A *branch owned by a non-resident corporation* is an activity carried out in Canada by a foreign resident corporation. Although it is not legally a corporation, Revenue Canada and Statistics Canada treat branches as corporations.

Related Group

A *related group* is a group of individuals, each member of which is connected to at least one other member of the group by blood relationship, marriage, or adoption.

Individuals are connected by blood relationship if one is the child or other descendant of the other or one is the brother or sister of the other.

Individuals are connected by marriage if one is married to the other or to a person who is so connected by blood relationship to the other.

Individuals are connected by adoption if one has been adopted, either legally or in fact, as the child of the other or as the child of an individual who is so connected by blood relationship (otherwise than as brother or sister) to the other.

Country of Residence of a Person

The *country of residence* classification procedures vary with the type of person. If the person is a corporation, the country of residence is the country where the corporation is officially incorporated. If the person is an **individual**, the country of residence is equivalent to the individual's country of residence. For individuals resident in more than one country, the Canadian *Income Tax Act* establishes the country of residence. If the person is a **government** (or other public body), then its residence is the country in which the government legally exists. If the person is an **estate or trust**, its country of residence is the country in which the estate or trust was legally created. If the person is a **related group** of individuals, then its country of residence is the same as that of the individuals' country of residence. If the individuals in the group do not all have the same country of residence, then the country of residence of the related group is the country in which the majority of the members of the related group resides.

Foreign Resident

A *foreign resident* is a person with a country of residence different from Canada.

Ownership

Ownership can be viewed or classified in various ways. The commonly used term refers to the ownership of a corporation's equity. The classification may be used to refer to specific equity classes or characteristics such as voting equity or participating equity. The first – voting equity – is the basis for determining the control of a corporation and its country of control and provides the basis for enterprise statistics (data aggregated to a parent company or higher level, or collected in some consolidated form).

Corporate Ownership

Corporate ownership means ownership of the equity and debt of a corporation. It implies the existing right, or the potential right, to share in the wealth generated from the operations of the corporation. The rights can be effected through voting common shares, through non-voting common shares, through preferred convertible shares, through debt, or through warrants, rights, options, or similar instruments.

Voting Ownership

Voting ownership (or voting equity or voting securities) is the class or classes of share capital of a corporation to which are attached votes that may be cast to elect the directors of the corporation. Preferred shares that are convertible into voting equity and debt having rights to become a voting equity investment are considered as voting ownership investments.

If a person holds securities of a corporation (directly or indirectly, other than by way of security only, by or for the benefit of that person) to which are attached votes that may be cast to elect directors, then this person is deemed to own voting equity in the corporation. Corporate voting ownership by a person is expressed as the percentage of the total voting equity of the corporation that is owned by that person.

Note: Since different classes of share capital of a corporation may not have the same number of votes per share, voting equity is calculated in terms of the number of votes rather than the number of shares.

Significant Voting Ownership

A person that owns 10 percent or more of the voting equity of a corporation is said to have *significant voting ownership* in that corporation. Note that such ownership is sufficient to be classified as a direct investment.

Majority Voting Ownership

A person that owns more than 50 percent of the voting equity of a corporation is said to have a *majority voting ownership* in the corporation. Such ownership is sufficient to control a corporation.

Participating Ownership

If a person holds securities of a corporation (directly or indirectly, other than by way of security only, by or for the benefit of that person) to which are attached the right to share in retained or distributed earnings, then this person has *participating ownership* in the corporation. Participating ownership by a person is expressed as the percentage of the total participating equity of the corporation that is owned by that person.

Other Descriptions of Share Capital

The share capital of a corporation may have other rights, privileges, or conditions associated with it that are not mutually exclusive. For example, common stock generally has voting rights, but there are classes of common stock that participate in earnings but do not have voting rights. Other descriptions of equity include convertible, preferred, cumulative, non-cumulative, redeemable, and retractable.

Corporate Control

Corporate control is the potential to affect the corporate strategic decision-making process of the board of directors of a corporation. Such strategic decisions include the acquisition or disposal of assets, the appointment of the chief executive officer, the allocation of resources, or the diversification of activities.

Care should be taken in using the word "*controlled*". In many cases where control is said to exist, corporations may still function with considerable autonomy in their financial, marketing, or operational activities. The concept of corporate control should be viewed as a potential that exists and is exercised within the framework of a corporate industrial society with highly varied management practices.

Direct Control

Control of a corporation implies that there exists actual or potential majority voting ownership by a person. Where there exists irrevocable options or the right to acquire shares, or convertible debt or equity, exercisable at the discretion of a person, then the calculation of the voting equity of the person is generally made as if the option had been exercised.

A corporation is *directly controlled* by a person if more than 50 percent of the voting equity is held, directly, other than by way of security only, by or for the benefit of that person.

Control in Effect

Control in effect of a corporation implies control of the corporation where there is no majority voting ownership.

If more than 50 percent of the directors of a corporation are also directors of a trust or an estate, or are also members of a related group, then the corporation is effectively controlled by that person. This does not apply to government-owned corporations.

If more than 50 percent of the directors of a corporation are also directors of another corporation, and if there is significant voting ownership of the corporation by that other corporation, then the corporation is effectively controlled by that other corporation. This does not apply to government-owned corporations.

If a person holds a significant voting ownership in a public corporation and if that holding is the largest block of voting equity and exceeds 33-⅓ percent and if that

block is larger than the combined percentage of the next two largest blocks, then the corporation is deemed to be effectively controlled by that person.

A corporation may be deemed to be effectively controlled if there exists a method or variety of methods (e.g., significant voting ownership of the corporation, technological agreements, franchise contracts, supply controls or contracts, management contracts, director interlocks, debt, or convertible debt or equity), that yield effective control.

If a corporation declares that it is effectively controlled by a person, then the corporation is controlled by that person unless it can otherwise be demonstrated.

Note that effective control is referred to as assigned control in Statistics Canada's *Intercorporate Ownership* database and publication. It should also be noted, however, that the concept of effective control is not embodied in the CALURA legislation.

Indirect Control

If a person directly or effectively controls a corporation that in turn directly or effectively controls other corporations, then the other corporations are *indirectly* controlled by that person. Any further corporations directly, effectively, or indirectly controlled by these corporations are also indirectly controlled by that person.

Common Control

A corporation is *commonly controlled* with another corporation if one of them is directly, effectively, or indirectly controlled by the other, or if both of them are directly, effectively, or indirectly controlled by the same person. Common control may also be exercised cumulatively.

Cumulative Control

If the set formed by the union of all commonly controlled corporations – plus the person that commonly controls them – directly, effectively, or indirectly controls another corporation, then this other corporation is also commonly controlled. This is referred to as *cumulative control*.

Global Enterprise

Corporate enterprise statistics produced by Statistics Canada and published by the Balance of Payments, CALURA, and other Statistics Canada divisions are based upon the concept of a global enterprise that operates in Canada. A *global enterprise* is the set formed by the union of all corporations under common control plus the controlling entity. The controlling entity is called the enterprise head and the controlled corporations in most cases are called subsidiaries.

Enterprise Head

An *enterprise head* is the person that exercises control over a global enterprise that is not itself controlled by any other person. An enterprise head may be a corporation, an individual, a related group of individuals, a trust, an estate, or a government (i.e., a person).

Subsidiary Corporation

A *subsidiary corporation* is any corporation that is controlled by another corporation. Note that if the enterprise head is a non-corporate person, then the global enterprise may contain controlled corporations that are not subsidiary corporations.

Holding Corporation

A corporation is the *holding corporation* of another corporation if that other corporation is its subsidiary.

Single-Corporation Enterprise

A corporation that is not commonly controlled with another corporation is called a *single-corporation enterprise*.

Multicorporation Enterprise

A *multicorporation enterprise* consists of an enterprise head and one or more controlled corporations.

Multinational Enterprise (MNE)

A multicorporation enterprise with controlled corporations resident in more than one country is a *multinational enterprise*. The term is often used to describe foreign residency firms with activity in Canada.

Country of Control

The *country of control* of a corporation is an assignment of a geographical locus of control, representing the country of residence of the persons having the greatest potential to influence strategically the activities of the corporation. These persons need not be associated or related in any manner. The country of control is the basis for the CALURA analysis of the extent and effects of foreign control within the Canadian economy and is used in the Balance of Payments Division's analyses of ownership and control of capital employed in Canada.

All corporations belonging to one global enterprise have the same country of control as the enterprise head. To determine its country of control, each enterprise head is individually reviewed according to the following procedures.

Non-Corporate Enterprise Heads

If the enterprise head is an individual, a related group, or a government, then the country of control of the enterprise head is the same as the country of residence of the enterprise head. If the enterprise head is an estate or trust, then the country of control of the enterprise head is the same as the country of residence of the beneficiaries of the estate or trust.

Corporate Enterprise Heads

Initially each enterprise head is assigned a country of control equivalent to the country of residence of the enterprise head.

For each country in the world add up the voting equity owned by non-corporate persons resident in that country plus the voting equity owned by corporations with that country's country of control.

If any country (including Canada) has a majority of voting ownership, then the country of control of the enterprise head is assigned to that country.

Otherwise, the corporation is assigned foreign control in that foreign country with the largest block of voting equity. If the largest blocks are equal, then the country of control is assigned using the order of precedence listed at the end of this section, based on foreign investment.

All corporations controlled by the enterprise head are assigned the country of control of the enterprise head.

These steps are repeated until there are no changes in country of control.

Resistance Rule

If the foreign resident ownership of the voting equity of an enterprise head by any one country is close to 50 percent, the country of control of the enterprise head can change as a result of relatively minor stock transactions. In cases such as these, strict adherence to the country-of-control procedures could lead to frequent changes in the country of control of an enterprise head within a relatively short period of time.

For large publicly traded corporations the country of control of an enterprise head is changed only when changes in the ownership of the voting equity of the enterprise head are substantial or appear to alter the potential control over the management of the enterprise head.

Exception

Enterprise heads resident in a tax-haven country (see list at the end of this section) are assigned a country of control labeled "foreign unspecified".

Foreign-controlled

Any enterprise that has a country of control other than Canada is foreign-controlled. The term *multinational enterprise* is used interchangeably with foreign-controlled enterprise.

Order of Precedence for Country of Control

Based on 1989 Foreign Direct Investment in Canada:

1. United States	2. United Kingdom
3. Japan	4. West Germany
5. Netherlands	6. France
7. New Zealand	8. Switzerland and Liechtenstein
9. Australia	10. Hong Kong
11. Sweden	12. Norway
13. Ireland	14. Belgium and Luxembourg
15. Italy	16. Finland
17. Brazil	18. South Korea
19. Singapore	20. Kuwait
21. Saudi Arabia	22. Austria
23. Denmark	24. Taiwan
25. Israel	26. USSR
27. Indonesia	28. Lebanon
29. Malaysia	30. Czechoslovakia
31. Spain	32. Greece

Tax-Haven Countries

The following countries are assigned a *foreign unspecified* country of control: Bermuda, Bahamas, Panama, Netherlands Antilles, and the Cayman Islands.

Directly Related Persons

If the voting rights of a corporation "A" are owned by a person "B" , then A and B are *directly related*.

Indirectly Related Persons

If a corporation "A" is directly related to a person "B" and if that person is directly related to corporation "C", then corporations A and C are *indirectly related*. Similarly, if a person is directly related to a corporation "B" and if B is related to a person "C", then persons A and C are indirectly related. All persons directly or indirectly related to the same corporation or person are indirectly related to each other.

Network

A *network* is an exhaustive set of all the persons that are directly or indirectly related.

A corporation that has no direct or indirect relationships is a corporate network consisting of itself. Note that the corporate networks implied by this definition are larger than global enterprises. The largest Canadian network contains well over 10,000 corporations.

Degree of Non-resident Ownership

Given a network, the *degree of non-resident ownership* of a corporation in that network by residents of a foreign country is the percentage of that corporation's voting equity directly owned by residents of that country plus that which is indirectly owned through other corporations in the network.

Note: If calculated on the basis of participating equity, which for the overwhelming majority of corporations is identical to voting equity, then the ultimate non-resident ownership of a corporation by residents of a foreign country represents the percentage of the corporation's retained earnings claimed by residents of that country.

Given a group of n related persons, let

U_i^c = the ultimate non-resident ownership of corporation i by residents of country c.

d_i^c = the direct ownership in corporation i by residents of country c; and

$\alpha_{i,j}$ = the percentage ownership in company i by person j.

Then

$$U_i^c = d_i^c + \sum_{j=1} \alpha_{i,j} U_j^c \qquad \forall i,\ i = 1,2,...n$$

where

$$\alpha_{i,i} = 0 \wedge \alpha_{i,j} = 0 \ \forall\ i \notin \textit{corporations}$$

$$\wedge\ d_i^c + \sum_{j=1}^{n} \alpha_{i,j} \leq 1$$

Therefore,

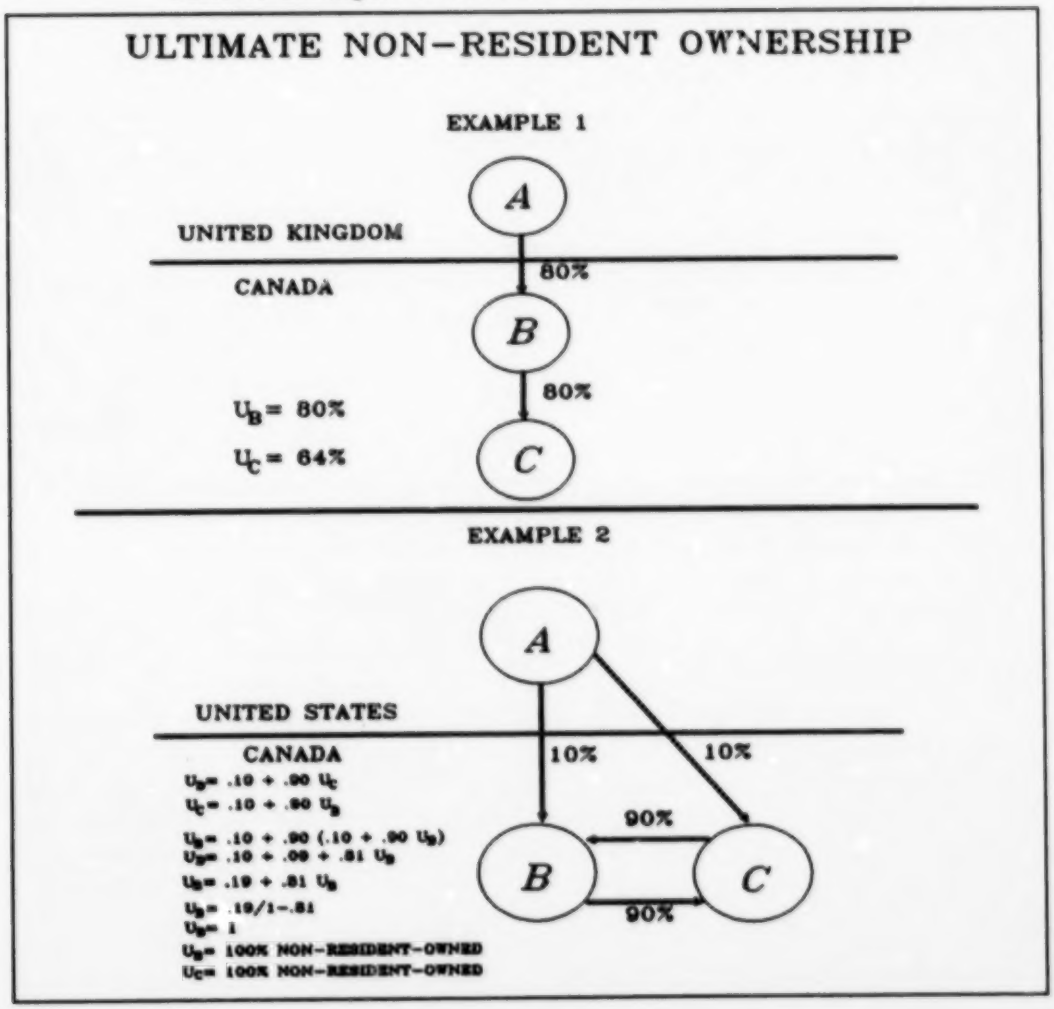
U_i = the total non-resident ownership of corporation i, and

$$U_i = \sum_{\forall c} U_i^c$$

Chart 17 provides two examples of ultimate non-resident ownership. In Example 1, Company A, which is resident in the U.K. owns 80 percent of Company B, which is located in Canada. Company B, in turn owns 80 percent of Company C, also located in Canada. The remaining shares of Companies B and C are held by Canadians. Using the above formulae, it can be shown that Company B is 80 percent foreign-controlled and Company C is 64 percent foreign-controlled.

Example 2 is more complicated. Company A, resident in the U.S., owns 10 percent of Company B, located in Canada and 10 percent of Company C, also located in Canada. Companies B and C own 90 percent of each other. The ultimate non-resident ownership of Companies B and C amounts to 100 percent.

Chart 17
Selected Examples of Ultimate Non-Resident Ownership



Ownership of Capital Employed

This concept is employed in the Balance of Payments Division's *Canada's International Investment Position* (Statistics Canada, Cat. No. 67-202).

Capital Employed in Canada

Capital employed in Canada is composed of the long-term assets and net working capital of the corporation, which is equivalent to the long-term liabilities (including equity). It does not include the foreign investments of the Canadian resident corporation. The measurement of capital employed is based on the book value of the corporation balance sheet.

Capital employed in Canada is measured from information on both sides of the balance sheet. The equity of the corporation is apportioned according to the participating equity of the corporation. The long-term debt is apportioned according to the ownership of these liabilities. Investments abroad are deducted. The deductions are usually based on the participating equity ratios and in some cases on the ownership of particular debt instruments (e.g., when funds for investments have originated from borrowing).

Foreign-Ownership Ratio

Foreign ownership of capital employed in Canada is the total ownership of debt and equity by residents of a foreign country divided by the total capital employed in Canada. It is also referred to as the *foreign-ownership ratio.*

Foreign Control of Capital Employed

Foreign control of long-term capital employed in Canada is the total value of the capital employed by a corporation that is foreign-controlled. This includes even that portion owned by a non-controlling Canadian interest (see Chart 5).

Foreign Investment

Foreign Direct Investment

Foreign direct investment is the book value of investment (both equity and debt) in a Canadian resident corporation by a foreign resident person who owns 10 percent or more of the voting equity of the global enterprise in Canada. Such ownership is considered adequate for the owner to influence the affairs of the corporation.

In exceptional cases where influence may be exercised by a significant debt, such an investment will be classified as direct investment.

Foreign Portfolio Investment

Any investment in a Canadian resident corporation by a foreign resident that is not foreign direct investment is *foreign portfolio investment*. Such investment is viewed as insufficient for the owner to influence the affairs of the corporation.

INVESTMENT CANADA

In order for the *Investment Canada Act* ("the Act") to apply in respect of an investment in an existing Canadian business, various conditions must be met. Three of the most important of these are that:

1) there be an **acquisition of control**;

2) the acquisition of control be of a **Canadian business**; and

3) the acquisition of control be made by a **non-Canadian**, since investments made by **Canadians** are not subject to the Act.

The following is a description of some of the most important concepts, definitions, and presumptions included in the Act; these are used to determine the existence of the conditions described above. As this description is not exhaustive but, rather, illustrative, we refer the reader to the Act for a comprehensive understanding of its applicability.

Acquisition of Control

As mentioned above, the concept of "acquisition of control" constitutes one of the most important cornerstones of the Act. It triggers the application of the Act. It distinguishes direct investment from portfolio investment. It also forms the basis of a substantial part of the data gathered by Investment Canada. It is therefore critical that the concept of "acquisition of control" be defined. This is done through a description of the methods used to acquire control and a list of rules and presumptions. A transaction that involves a non-Canadian acquiring assets or shares, or other voting interests, relating to a "Canadian business" will not be reviewable under the Act unless it is an "acquisition of control of the Canadian business" pursuant to the rules contained in the Act. Control of a Canadian business may only be acquired through the acquisition of voting shares, voting interests, or assets as follows:

- through the acquisition of **voting shares** of a corporation incorporated in Canada carrying on the Canadian business;

- through the acquisition of **voting interests** of an entity that carries on the Canadian business or through the acquisition of the voting interests of an entity that controls, directly or indirectly, another entity that carries on the Canadian business where there is no acquisition of control of a corporation (see other rules in the Act); or

- through the acquisition of all, or substantially all, of the **assets** used in carrying on the Canadian business.

Any other kind of acquisition that does not fall into one of the above descriptions does not constitute an acquisition of control within the meaning of the Act.

In addition, among others, the following rules and presumptions will apply to determine whether the acquisition of voting interests of a corporation or other entity will constitute the acquisition of control of the corporation or other entity in question:

- in the case of an **entity**, there will be deemed **acquisition of control** where a majority of the voting interests of an entity or undivided ownership in the voting shares of a corporation are acquired;

- in the case of a **corporation**, there will be deemed **acquisition of control** where one-third or more, but less than a majority, of the voting shares are acquired unless it can be established that, upon acquisition, the corporation is not controlled in fact by the acquiror through the ownership of voting shares;

- in the case of a **corporation,** there will **not** be an **acquisition of control** where less than one-third of the voting shares of a corporation are acquired; and

- in the case of an **entity other than a corporation**, the acquisition of less than a majority of the voting interests of the entity is deemed **not** to be an **acquisition of control** of that entity.

The Act also includes a presumption on **step transactions** and a rule on **options** to acquire shares or assets.

An important concept relating to control is the ownership of **voting interests** which, in the context of a corporation, means the ownership of voting shares and, in the case of a partnership, a trust, or a joint venture, means an ownership interest in the assets and the profits.

A **voting share** is defined as a share in the capital of a corporation to which is attached a voting right ordinarily exercisable at meetings of shareholders of the corporation and to which is ordinarily attached the right to receive a share of the profits or to share in the assets of the corporation on dissolution, or both.

A Canadian Business

Before the expression "Canadian business" is defined one has to look at the term "**business**", which is defined as any undertaking or enterprise capable of generating revenue and carried on in anticipation of profit.

A **Canadian business** is one that is carried on in Canada and has:

- a place of business in Canada;
- at least one individual in Canada employed or self-employed in connection with that business; and
- assets in Canada that are used to carry on that business.

As a result, in order to be considered a "Canadian business", an activity must first meet the conditions of both definitions i.e., "business" and "Canadian business".

A Non-Canadian

A non-Canadian is defined as being an individual, a government or one of its agencies, or an entity that is not a Canadian. Hence, before it can be ascertained whether an investor is a non-Canadian, the definition of a Canadian must first be considered.

A Canadian

A **Canadian** is defined as being:

- a Canadian citizen (whether residing in Canada or not) or a permanent resident meeting certain conditions;
- a Canadian government (federal, provincial, or local) or one of its agencies; or
- an **entity** that is **Canadian-controlled**.

Entity

An **entity** means:

- a **corporation** that is a body corporate, with or without share capital;

- a **partnership**;

- a **trust**; or

- a **joint venture**, which is an association of two or more persons, or entities, whose relationship cannot be considered to be a corporation, a partnership, or a trust and where, when the Act applies, all the undivided ownership interest in the assets of the Canadian business or in the voting interest of the entity that is the subject of the investment is, or will be, owned by the joint venture.

The notions of "control" and "Canadian" become intertwined, as will be shown below, in some of the presumptions found in the Act.

Presumed to be Canadian-controlled

An **entity** is presumed to be **Canadian-controlled** if:

- one Canadian or two or more members of a voting group who are Canadians own a majority of the voting interests of an **entity**;

- a majority of the voting interests of an **entity** are owned by Canadians and it can be established that the entity is not controlled in fact through the ownership of its voting interests by one non-Canadian or by a voting group in which non-Canadians own one-half or more of those voting interests of the entity owned by that voting group; or

- in the case of a **trust**, it can be established that the trust is not controlled in fact through ownership of its voting interests, and if two-thirds of its trustees are Canadians.

Deemed to be Canadian-controlled

A **corporation** whose voting shares are publicly traded is **deemed to be Canadian** for a maximum of two years while and if:

- the majority of its voting shares are owned by Canadians;

- 80 percent of the board of directors are Canadian citizens normally resident in Canada;

- its chief executive officer and three of its four most highly remunerated officers are Canadian citizens normally resident in Canada;

- its principal place of business is located in Canada;
- its board of directors supervises the management of its business and affairs autonomously without direction from any shareholder other than through the normal exercise of voting rights at shareholders' meetings; and
- the circumstances above have existed for at least 12 months,

except if the investment falls within a specific type of activity considered to be related to Canada's national heritage or cultural identity.

Presumed not to be Canadian-controlled

An entity is presumed **not** to be **Canadian-controlled** if:

- one non-Canadian, or two or more members of a voting group who are non-Canadians, owns a majority of the voting interests of an **entity**;
- less than a majority of the voting interests of an **entity** are owned by Canadians, unless:

  (a) it is controlled in fact through the ownership of its voting interests by one Canadian or a voting group in which Canadian members own a majority of the group's voting interests; or

  (b) if the entity is a corporation or limited partnership, it is not controlled in fact through the ownership of its voting interests, and two-thirds of its board of directors or, in the case of a limited partnership, two-thirds of its limited partners are Canadians; or

- in the case of a **corporation**, all of its voting shares are owned equally by a Canadian and a non-Canadian.

Special Rules

To assist in the determination of the Canadian-controlled status, the Act includes the following special rules:

1) Unincorporated entities such as **partnerships** and **joint ventures** are treated as "entities" and therefore, generally speaking, have their status determined under the same rules that apply to corporations.

2) Where the voting interests of an entity are owned by a partnership, a trust (other than that described above), or a joint venture, those voting interests are deemed to be owned in the same proportion as their respective ownership in the assets of the said entity.

3) Voting interests issued to "bearer" are considered to be non-Canadian.

4) Voting interests held by individuals, each of whom holds no more than 1 percent of the total voting interests of the entity, are considered Canadian-controlled, lacking evidence to the contrary, upon submission of an appropriate statement defined under the Act.

ENERGY, MINES AND RESOURCES CANADA

Petroleum Monitoring and Information Services Division Control

Control is a right held by a person, or group of persons, to direct, within the limitations of relevant statutes, in the present or at some future date, the affairs or management of a company, usually through the appointment of a majority of a board of directors.

Control is not to be confused with the management responsibility for the firm. The concept of control emerged in order to recognize the separation in modern corporations between managers and shareholders. Shareholders assert control over management through the board of directors and shareholder meetings.

Control that is exercised, for example, by electing the majority of directors is *active control*. When a shareholder, with a continuing right to intervene, chooses not to exercise that right, then the control is called *potential control*.

De jure control

A person who owns more than 50 percent of the voting shares of a corporation is said to have *de jure control*.

De facto control

A person who owns 50 percent or less of the voting shares of a corporation but is able to alter the composition of the board of directors and/or management is said to have *de facto control*.

De facto control may also be conferred upon a person or group of persons through several other mechanisms:

a) *Blocks of voting shares*: Two or more shareholders who generally act in concert have voting shares that sum to more than 50 percent.

b) A *shareholder's agreement*: An agreement among some or all shareholders to vote or act in certain ways in various contingent circumstances, especially in relation to naming directors.

c) *Options*: A minority shareholder enjoys the right at any time to acquire additional voting shares that would raise his holdings to more than 50 percent.

d) *Personal Relationships*: Where two or more shareholders are related by blood relationship, marriage, or adoption, they may be deemed to constitute a voting group.

e) *Interlocking Directorships*: When corporation A owns at least a minimum percentage of the voting shares of corporation B and is its largest minority shareholder, and when both corporations share a large number of common directors, then corporation A is said to control corporation B.

In addition, where Statistics Canada in the application of its methodology assigns *potential or effective control* to a minority shareholder, the PMIS designation of control is consistent.

Mineral Policy Sector Control

1) *Control* is allocated to any shareholder that holds more than 50 percent of the voting rights of the company. If no such shareholder exists, then

2) *Control* is allocated to any shareholder that:

- is the managing agent of, or provides management or financial services to, the company and/or
- has a significant number of its officers or directors on the company's board of directors, or among its senior officers.

If there are no significant minority shareholders with apparent managerial control of the company, then

3) Control is assigned to the country in which the greatest proportion of voting rights are held and/or whose residents hold a majority of the seats on the board of directors.

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